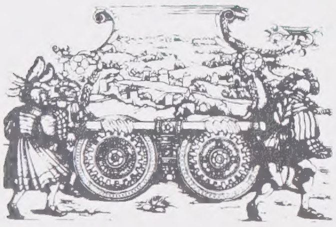
SPAR AEROSPACE PRODUCTS LTD.

Annual Report 1974

Spar Annual Report Covers *(new series)*



1973

A number of the vehicles parading - on paper only - in *The Triumph of Maximilian I* (1526) were provided with imaginative transmission and propulsion systems.

1974

To the non-technical 16th century reader, this complex wheels-within-wheels vehicle from The *The Triumph of Maximilian I* must have seemed an intriguing concept. Hans Springinklee, the engraver to whom the series of "automobiles" in *The Triumph* is attributed, could hardly foresee our present day technology.

SPAR AEROSPACE PRODUCTS LTD.

Directors

C. H. Barrett
D. S. Beatty
L. D. Clarke*
R. B. Dodwell*
W. H. Jackson*
Dr. P. A. Lapp
R. A. Perigoe
R. D. Richmond*
D. A. B. Steel*

*members of the Executive Committee

Officers

Chairman of the Board and Chief Executive Officer	L. D. Clarke
Vice-Chairman of the Board	R. B. Dodwell
President and Chief Operating Officer	R. D. Richmond
Vice-President, Finance, and Treasurer	G. J. Aubrey
Vice-President, Contracts and Pricing	G. B. Gomes
Vice-President and General Manager, Engineering	J. E. Lockyer
Vice-President and General Manager, RMS Programs	J. D. MacNaughton
Vice-President, Sales	R. E. Marcille
Vice-President, Personnel and Employee Relations	E. V. Nield
Vice-President and General Manager, Operations	G. R. Rutledge
Comptroller	D. C. Cleland
Secretary	D. A. B. Steel

Transfer Agents and Registrars

Montreal Trust Company
Toronto, Montreal, Winnipeg

Auditors

Clarkson, Gordon & Co.

Bankers

The Mercantile Bank of Canada

Head Office

825 Caledonia Road • Toronto • Canada • M6B 3X8

Wholly-owned subsidiary

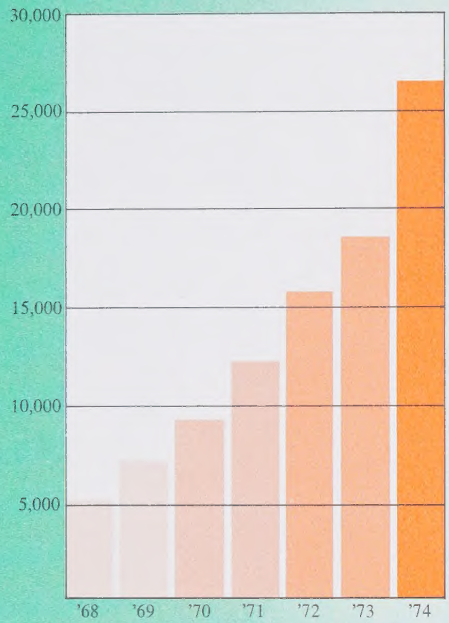
ASTRO RESEARCH CORPORATION

1330 Cacique Street • Santa Barbara • California • 93103

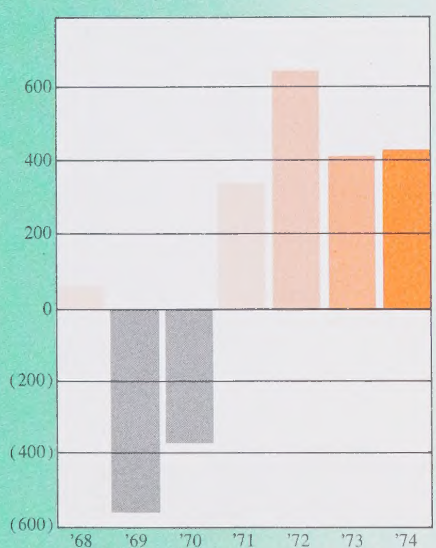
Officers

Chairman of the Board and Chief Executive Officer	L. D. Clarke
President	Dr. J. M. Hedgepeth
Secretary/Treasurer	G. J. Aubrey

Revenues ($000s)



Earnings (Loss)
before extraordinary items ($000s)



Report to Shareholders

All major business categories of Spar showed increased activity in 1974 despite a strike which affected plant operations during the last quarter of the year. Although of relatively short duration, the strike had a negative impact on your company's earnings.

Financial

Revenues in 1974 increased by 43% from $18.5 million to $26.4 million. Earnings after income taxes totalled $419,000 against $407,000 for the preceding year, while earnings per weighted average common share remained constant at 28¢, due to a larger number of shares oustanding in 1974. On a fully diluted basis earnings in 1974 were 25¢ per share, compared to 24¢ a year earlier. Shareholders' equity, after payment of $121,000 in dividends, increased from $4 million to $4.3 million.

During the year Spar improved its financial position by renegotiating and increasing its term loan to $2 million, thus facilitating the company's continuing growth.

Following prior years' practice, research and development expenses of $163,886 (compared to $350,792 in 1973) were charged to income. Such expenses were net of government grants and assistance of approximately $200,000 ($39,000 in 1973).

In 1974 Spar continued its policy of deferring certain development expenses. These were related principally to the Viking air cushion vehicle transmission and linear induction motor (LIM) programs. Deferred development expenditures for the year totalled $638,635 ($395,807 in 1973), excluding government assistance on the LIM program of approximately $636,000. In accordance with your company's practice of amortizing deferred development costs over five years, $326,600 was charged to income in 1974 ($199,200 in 1973).

Your company also spent $1.58 million (of which $1.31 million was provided in the form of government assistance) on the Spar-designed test track for advanced propulsion systems.

Operations

Manufacturing Division revenues, including repair and overhaul sales of $9,395,000 (up from $8,787,000 in 1973), increased by $3,770,000 to $15,813,000 and Engineering Division revenues rose $4,184,000 to $10,631,000.

Higher revenues from repair and overhaul activities reflect the advancing age of the Canadian military aircraft whose equipment is serviced by Spar, as well as your company's success in developing new commercial and foreign markets. All repair and overhaul operations continued to be profitable.

Notwithstanding an increase in the volume of Spar's gear and transmission manufacturing (from $2.2 million to $5.8 million), this area of operations failed to contribute to Spar's earnings. This was partly due to the fact that, despite prolonged negotiations aimed at reaching a settlement, your company was unable to avoid a strike of its production workers in November, 1974. The dispute resulted in the loss of five weeks' production and in operating inefficiences before and immediately following the strike. Spar's manufacturing costs were also adversely affected by the delivery and quality problems, in respect of materials and new production equipment, which plagued most of North America's

metalworking industry during the first nine months of the year.

In the Engineering Division, the profitable work on the assembly and test phases of the Communications Technology Satellite (CTS) program continued at a high level throughout the year. This work accounted for about two-thirds of Spar's engineering effort during the period.

Other engineering activities included continued studies and testing of Spar's infra-red acquisition system for the Canadian and United States navies; the development, manufacture and testing of an initial preproduction quantity of linear induction motors; the design, construction and successful operation of the 1,250 ft. (375 m) track and static facilities for the testing of linear motor-driven vehicles, wheeled as well as magnetically levitated, and the preliminary design and testing of remote manipulator systems for applications in space, underwater and in nuclear power plants. The track is located in the grounds of Spar's plant in Toronto.

Astro Research Corporation

Prior years' marketing efforts of this subsidiary commenced to pay off in 1974. Astro's sales rose to $740,000 from $239,000 in 1973, producing earnings before taxes of $34,754 against a loss for the previous year. Significantly, the improvement in sales resulted from the successful penetration of a number of new market areas for Astromast applications.

At year end engineering and manufacturing responsibility for your company's STEM antennas and actuators for space applications was assumed by Astro under license from Spar.

Outlook

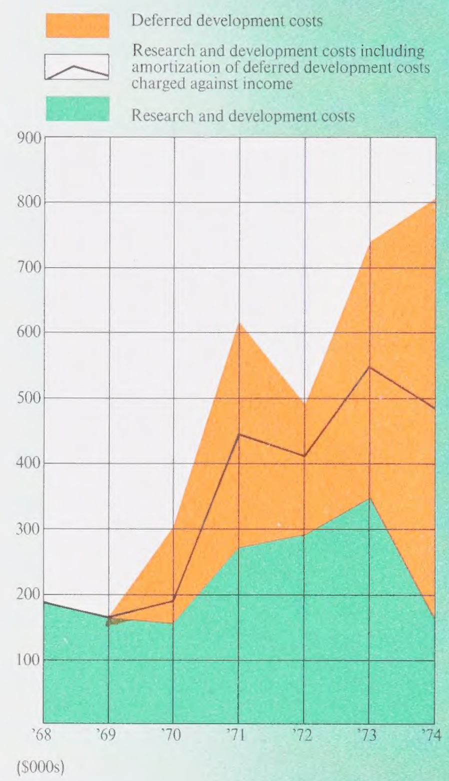
Spar's financial results for 1974 fell short of expectations, mainly due to the problems within the gear manufacturing segment of operations and the effect of the strike. However, your management is confident that in 1975 Spar's results will show a substantial increase in earnings, even though the level of sales might not differ significantly from that in 1974.

The volume of repair and overhaul work for 1975 is expected to be approximately the same as for the previous year. The anticipated increase in the volume of commercial business may well be offset by a reduction in military overhaul work due to the reduced flying program of the Canadian Forces for the current year.

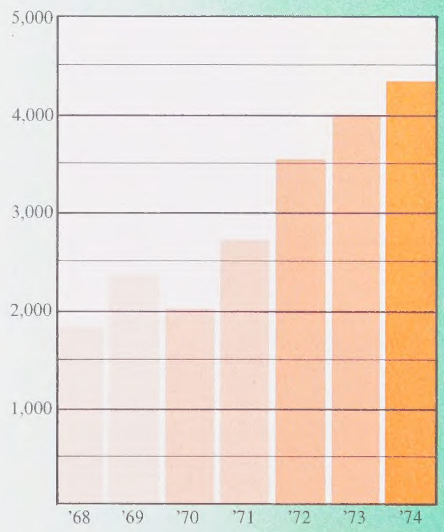
Gear and transmission manufacturing is expected to continue to grow in 1975 and profit margins in this area of activity should improve as the problems encountered in 1974 are reduced or overcome. In addition, the lower value of the Canadian dollar, if maintained, should improve Spar's competitive position in the United States, where your company sells a large proportion of its gear production.

At the beginning of 1975, Spar established a new division for the design and development of remote manipulator systems (RMS). It is hoped that Spar's RMS will be adopted by the United States National Aeronautics and Space Administration (NASA) for its planned Space Shuttle program. Hopefully, RMS will also be used in conjunction with equipment, such as nuclear reactors and deep-diving submersibles, operating in other hostile environments.

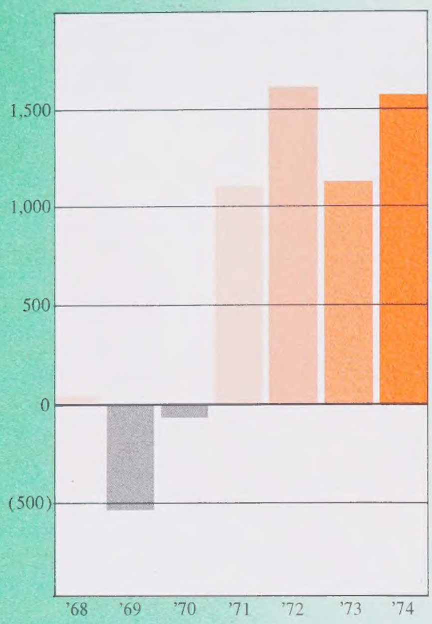
The CTS program will be completed during 1975. While our engineering activity level will remain relatively unchanged as new projects



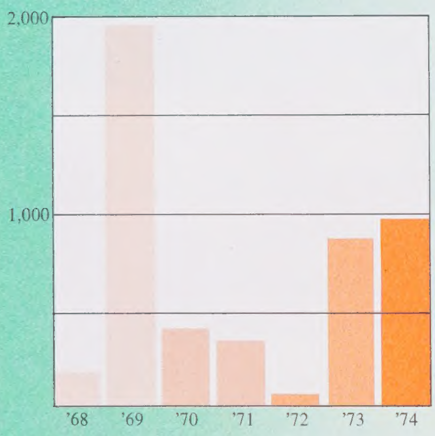
Shareholders' Equity ($000s)



Cash flow from operations ($000s)



Capital Expenditures ($000s)
(net of Government grants)



are initiated, billings from the Engineering Division will be reduced due to the lack of hardware content. However, the remote manipulators, infra-red systems and new satellite projects, now being defined and developed, should move into the manufacturing phase in 1976 and subsequent years.

Spar is actively pursuing opportunities in the transportation field, both in relation to its established expertise in linear induction motors and in respect of new products to be manufactured under licenses from foreign suppliers. The licensing activities are still in the formative stage and are not expected to have a material effect on your company's results in 1975.

With the assumption by Astro Research Corporation of responsibility for the STEM product line, sales of this subsidiary should rise to more than $1 million in 1975. Although the initial cost of setting up the STEM production line will affect earnings, it is anticipated that Astro will continue to be profitable in 1975.

As the leader of a consortium of Canadian companies, Spar has been giving serious consideration to the submission of a proposal to the Federal Government for the acquisition of DeHavilland Aircraft of Canada Limited and Canadair Limited. Because of the complexity and size of the project, it is unlikely that a final decision in this matter will be made in the near future.

Acknowledgements

As in previous years, your board of directors would like to express its appreciation of the support received by the company from its employees and shareholders. The directors also wish to recognize the help and encouragement given to Spar over the years by its bankers. Their support has enabled your management to pursue opportunities which otherwise could not have been considered.

Annual Meeting

It is expected that the company's Annual and a Special General Meeting of Shareholders will be held in Toronto, on or about May 22, 1975.

On behalf of the Board,

L. D. Clarke, *Chairman*

R. D. Richmond, *President*

April 3, 1975.

Consolidated Statement of Income and Retained Earnings

For the year ended December 31, 1974

	1974	1973
Revenues	$26,444,241	$18,489,797
Cost of sales including all expenses except items shown below	22,191,314	14,874,784
Administrative and selling expenses	2,393,018	1,904,821
Research and development costs	163,886	350,792
Deferred development amortization	326,600	199,200
Depreciation	426,051	312,412
Interest expense (net) (note 4)	183,016	62,096
	25,683,885	17,704,105
Income before income taxes	760,356	785,692
Income taxes (note 5)	341,620	378,396
Income for the year	418,736	407,296
Retained earnings, beginning of year	667,553	378,006
	1,086,289	785,302
Dividends on common shares	121,284	117,749
Retained earnings, end of year	$ 965,005	$ 667,553
Earnings per common share:		
Basic	$ .28	$ .28
Fully diluted	$ .25	$ .24

Basic earnings per share are based on 1,516,297 shares being the weighted average number of common shares outstanding during the year (1973 — 1,456,611).

Fully diluted earnings per share are based on 1,793,304 shares assuming conversion of all of the deferred shares and exercise of all options outstanding, and recognition of imputed earnings after tax at the rate in 1974 of 5.6% ($26,000) on cash that would be received therefrom (note 6).

(See accompanying notes to financial statements)

Consolidated Balance Sheet

December 31, 1974

ASSETS

	1974	1973
Current:		
Accounts receivable	$ 4,040,795	$ 3,364,310
Inventories, less advance payments (note 2)	4,202,990	2,637,359
Prepaid expenses	27,707	44,172
Total current assets	8,271,492	6,045,841
Machinery, tooling and equipment — at cost (note 3)	4,455,270	3,628,522
Less accumulated depreciation and amortization	1,564,309	1,176,096
Net machinery, tooling and equipment	2,890,961	2,452,426
Deferred development costs less accumulated amortization	892,368	580,333
	$12,054,821	$ 9,078,600

On behalf of the Board:

R Dodwell Director

L. J. Clarke Director

(See accompanying notes to financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1974	1973
Current:		
Bank indebtedness (note 4)	$ 1,219,332	$ 243,135
Accounts payable and accrued charges	2,788,118	2,582,749
Income and other taxes payable (note 5)	41,431	152,381
Current portion of long term debt (note 4)	360,130	307,185
Total current liabilities	4,409,011	3,285,450
Long term debt (note 4)	2,205,061	1,084,765
Deferred income taxes (note 5)	1,124,050	706,000
Shareholders' equity:		
Capital stock (note 6)	3,351,694	3,334,832
Retained earnings	965,005	667,553
Total shareholders' equity	4,316,699	4,002,385
	$12,054,821	$ 9,078,600

Auditors' Report

To the Shareholders of
SPAR AEROSPACE PRODUCTS LTD.:

We have examined the consolidated balance sheet of Spar Aerospace Products Ltd. and its subsidiaries as at December 31, 1974 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada,
March 20, 1975.

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1974

	1974	1973
Working capital was provided by:		
Operations —		
Net income for year	$ 418,736	$ 407,296
Add (deduct) income charges (credits) not affecting working capital:		
Depreciation	426,051	312,412
Deferred development amortization	326,600	199,200
Deferred income taxes (note 5)	418,050	264,000
Losses (gains) on disposal of machinery and equipment	(16,116)	4,656
	1,573,321	1,187,564
Issue of capital stock (note 6)	16,862	121,481
Long term debt assumed under Government Industrial Assistance Program (note 3)	160,287	411,518
Term bank loan	2,000,000	—
Proceeds on disposal of machinery and equipment	49,517	13,709
	3,799,987	1,734,272
Working capital was used for:		
Acquisition of machinery and equipment net of Government grants (note 3)	897,988	890,021
Deferred development costs	638,635	395,889
Long term debt repayments and increase in current instalments	1,039,990	307,185
Dividends on common shares	121,284	117,749
	2,697,897	1,710,844
Increase in working capital	1,102,090	23,428
Working capital, beginning of year	2,760,391	2,736,963
Working capital, end of year	$ 3,862,481	$ 2,760,391

(See accompanying notes to financial statements)

Notes to Consolidated Financial Statements

December 31, 1974

1. Accounting policies

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the company and all subsidiary companies.

Inventories

Inventories of raw materials and finished goods are valued at the lower of cost, applied on a moving average basis, and market value determined on the basis of replacement cost or net realizable value, whichever is lower. Work in process represents contracts valued at estimated sales value calculated on the percentage of completion basis where the work has advanced sufficiently to warrant such a valuation, and contracts in the initial stages which are valued at cost. Under the percentage of completion method, revenue is accrued as the work is performed and provision is made for any anticipated losses where the estimate of total costs on a contract indicates a loss.

Research and development costs

The company follows the practice of expensing all research and development expenditures as incurred with the exception of:

(a) costs related to special purpose test facilities and equipment for development purposes which are capitalized and included as machinery, tooling and equipment, and

(b) certain development costs related to the initial manufacture of new products which are deferred and amortized over a period of five years commencing in the year in which the expenditure is incurred. Should the company determine that no future benefit will accrue on a program, the costs of such program will be totally written off at that time. Development costs are claimed for income tax purposes as incurred.

Machinery, tooling and equipment

The cost of machinery and equipment comprises the cost to the company after deduction for related Government grants.

The company records depreciation and amortization on a straight line basis at the following rates:

- 10% for machinery and fixtures,
- 33⅓% for tooling and automotive equipment.

The special purpose test facilities acquired in 1974 (note 11) are being depreciated on a 20% straight line basis.

Income taxes

The company provides for income taxes on the tax allocation basis whereby the provision for income taxes each year is computed on the basis of the depreciation, amortization and other charges reflected in the statement of income rather than the related amounts claimed as deductions in the company's tax return.

2. Inventories

Inventories are classified as follows:

	1974	1973
Work in process less advance payments in 1974 of $717,331 (1973 — $30,700)	$3,841,290	$2,351,317
Raw materials, parts and supplies	351,660	268,518
Finished goods	10,040	17,524
	$4,202,990	$2,637,359

3. Machinery and equipment

The company has acquired certain machinery and equipment under Government of Canada industrial assistance programs whereby half of the purchase price was received as a grant ($160,287 in 1974) and the balance as an interest-free long term loan (see note 4). An IRDIA grant of $90,000 related to special purpose test facilities (note 11) was applied to reduce the capitalized costs thereof.

4. Long term debt

	Total liability	Portion due in 1975 shown in current liabilities	Long term
Non-interest bearing loans from the Government of Canada for the purchase of machinery and equipment repayable in annual instalments to 1979 at which time the company acquires full title to the assets	$ 602,691	$ 185,130	$ 417,561
Term bank loan bearing interest at 1¼ % above the prime rate and payable in quarterly instalments to December 31, 1979	1,962,500	175,000	1,787,500
	$2,565,191	$ 360,130	$2,205,061

The term bank loan is secured by a demand debenture in the principal amount of $4,000,000 that carries a floating charge on all unencumbered assets of the company. Under the debenture, the company is required, among other things, to maintain an excess of current assets over current liabilities of not less than $1,500,000 and to meet certain ratio tests of current assets to current liabilities and indebtedness to shareholders' equity. Interest charges on term bank loans amounted to $131,562 in 1974 and $77,676 in 1973.

The company in addition has a line of credit with its banker for day to day purposes against which a general assignment of the accounts receivable and inventories has been pledged as collateral.

5. Income taxes

Capital cost allowances and other expenditures allowable for tax purposes with respect to 1974 are such that all of the 1974 provision for income taxes is deferred as well as a portion of the income taxes provided in the prior year. The total income taxes thus deferred amount to $418,050.

6. Capital stock

The following table details the capitalization of the company:

	Authorized shares	Issued and outstanding December 31, 1974 Number	Amount paid in
Common shares without nominal or par value	2,000,000	1,519,804	$3,349,444
Second deferred shares without nominal or par value	125,000	75,000	750
Third deferred shares without nominal or par value	200,000	150,000	1,500
	2,325,000	1,744,804	$3,351,694

Deferred shares

The second deferred shares are convertible at any time on the basis of one deferred share plus cash of $1.00 for one common share.

The third deferred shares are convertible at any time, on the basis of one deferred share plus cash of $1.50 for one common share.

Deferred shares are eligible for dividends in each year following that in which the consolidated net profit of the company, after tax, exceeds, in the case of the second deferred, $300,000, and the third deferred $400,000. If declared, dividends on the second deferred shares are restricted to the dividends paid on the common shares in the preceding fiscal year of the company. Dividends on the third deferred shares are restricted to the dividends paid on the second deferred shares in the preceding year. In 1975, dividends on the second deferred shares, if declared, would be restricted to $.08 per share while no dividend could be paid on the third deferred shares.

The second deferred shares carry one vote and

the third deferred shares carry three votes per share.

Stock option plan

Under an incentive stock option plan, there are outstanding options to full-time officers and other employees to purchase common shares of the company which may be exercised at various periods through to 1981.

During the year options on 11,000 shares were exercised for cash of $16,862.

At December 31, 1974, 48,500 common shares were under option at prices ranging from $1.35 to $4.72 per share including 11,000 common shares under option to officers of the company.

Common shares reserved for future use

273,500 common shares are reserved for future issue of which 225,000 are reserved for conversion of the second and third deferred shares and 48,500 for the exercise of the outstanding stock options.

7. Business categories

Revenues in each of the company's major categories of business are as follows:

	(000s) 1974	1973
Engineering	$10,631	$ 6,447
Repair and overhaul	9,395	8,787
Manufacturing	6,418	3,256
	$26,444	$18,490

8. Lease commitments

The company leases its Caledonia Road facility under a lease extending through 1989 for an annual rental of $318,000.

9. Pension plans

The company has funded pension plans covering substantially all of its employees. The contributions by employees together with those made by the company are deposited with trustees according to the terms of the plans. Pensions at retirement are related to remuneration and/or years of service. The amount charged to income (including payments to Government pension plans) was $492,155 (1973 — $390,442) which includes amortization of prior service costs.

Unfunded prior service pension costs of $456,377 (including unfunded vested benefits of $289,318) will be funded on a straight line basis over the next 14 years.

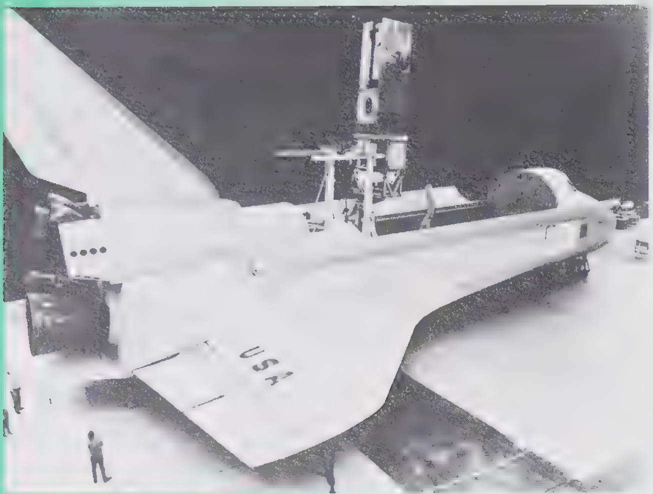
10. Directors' and officers' remuneration

The aggregate remuneration paid by the company to its nine directors, and one past director, excluding salaries as officers, amounted to $31,166 (1973 — $34,493). The aggregate remuneration paid to its twelve officers, as officers, amounted to $388,936 (1973 — to eleven officers — $326,816). Four officers are also directors of the company.

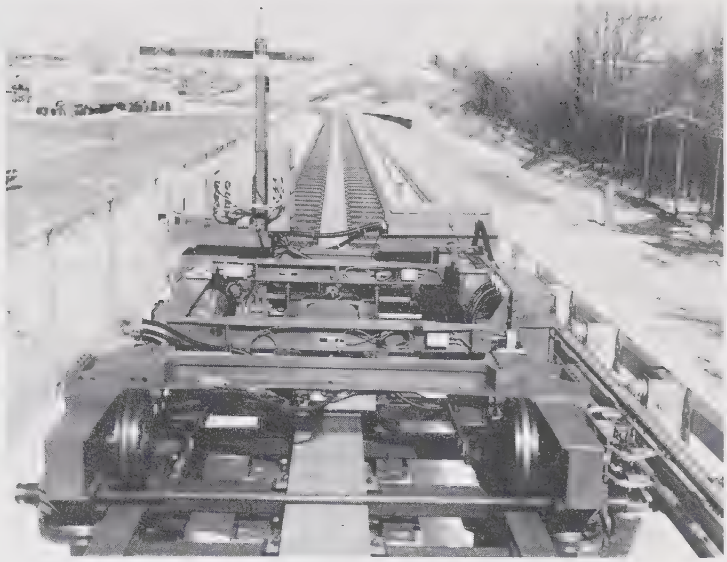
11. LIM shared-cost program

In 1973, the company began a shared-cost program with the Federal Government for the development of linear induction motor (LIM) propulsion systems. The program involves total costs of $3,632,000 over a four year period with assistance of approximately $2,600,000 from the Government of which $1,816,000 is in the form of a grant while portions of the remainder become repayable in the event of future sales of the developed product. Government assistance to December 31, 1974 is $2,195,448 ($1,946,106 in 1974) of which $776,000 is the amount contingently repayable.

The company's share of costs incurred to December 31, 1974 amounted to $562,558 ($500,223 in 1974) of which the costs of special purpose test facilities are included with machinery and equipment and the balance charged to deferred development costs (note 1).



Full-scale working model of the Special Purpose Manipulator System (SPMS) (in the centre of the photograph) in a mock-up of the Space Shuttle at Rockwell International in California.



LIM-propelled vehicle travelling along the 1,250 ft. dynamic test track for advanced propulsion and suspensions systems at *Spar's* Toronto plant.

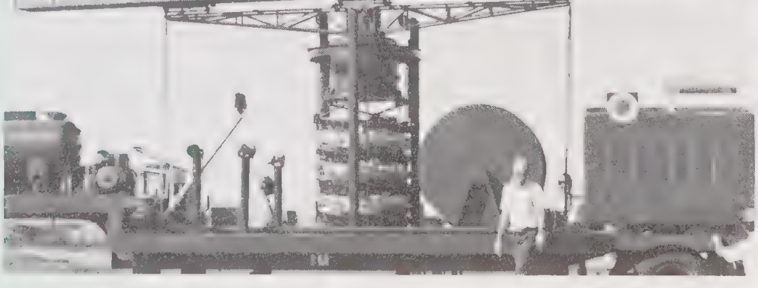
Gear and transmission systems for surface vehicles and aircraft are designed, manufactured and serviced at *Spar*.

Repair and overhaul of Constant Speed Drive for Canadian Forces 707 transport aircraft.

One of the two trailer-mounted extendible towers for radar beacon site surveys which Astro Research Corporation recently designed and fabricated for the U.S. Federal Aviation Agency

(right) the tower deployed to a height of 100 ft.

(below) the tower retracted



Seven year review

	1974	1973	1972	1971	1970	1969	1968
Earnings (loss) per share:							
Basic							
— before extraordinary items	**$.28**	$.28	$.49	$.27	($.30)	($.51)	$.06
— net income (loss) for the year	**$.28**	$.28	$.63	$.54	($.30)	($.69)	$.02
Fully diluted							
— before extraordinary items	**$.25**	$.24	$.38	$.20			
— net income for the year	**$.25**	$.24	$.48	$.41			
Dividends paid per share	**$.08**	$.08	$.02				
Shareholders' equity per share — fully diluted	**$2.41**	$2.23	$2.03	$1.54	$1.14	$1.39	$1.27

	($000's)						
Revenues	**26,444**	18,490	15,843	12,205	9,124	7,148	5,436
Earnings (loss) for the year:							
— before extraordinary items	**419**	407	652	334	(371)	(556)	56
— net income (loss) for the year	**419**	407	830	671	(371)	(747)	22

	($000's)						
Working capital	**3,855**	2,760	2,737	728	314	1,008	1,535
Ratio of current assets to current liabilities	**1.9**	1.8	1.8	1.2	1.1	1.2	3.0
Capital expenditures (net of government grants)	**898**	890	132	280	390	1,923	234
Long term debt	**2,565**	1,392	1,272	610	848	1,146	—
Shareholders' equity	**4,317**	4,002	3,591	2,707	2,035	2,393	1,785

Number of employees	**750**	650	560	460	510	540	340
Number of shareholders	**2,170**	2,190	2,200				
	1974	1973	1972	1971	1970	1969	1968

SPAR

SPAR AEROSPACE PRODUCTS LTD. • 825 CALEDONIA ROAD • TORONTO • CANADA • M6B 3X8

AR20

SPAR AEROSPACE PRODUCTS LTD.

Consolidated Statement of Changes in Financial Position (Unaudited)

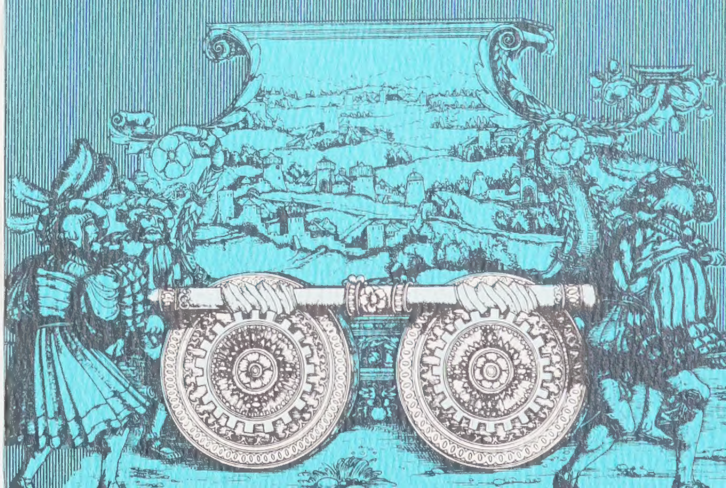
	Six months ended June 30, *1974*	*1973*
Working capital was provided by:		
Operations		
Net income for the period	$ 284,000	$ 259,000
Add (deduct) items not affecting working capital		
Depreciation and amortization	209,000	165,000
Deferred development amortization	174,000	100,000
Deferred income taxes	210,000	233,000
Gain on disposal of machinery and equipment	(16,000)	—
	861,000	757,000
Issue of capital stock	14,000	80,000
Long term debt assumed under Government Industrial Assistance Program	132,000	114,000
Proceeds on disposal of machinery and equipment	47,000	—
	1,054,000	951,000
Working capital was used for:		
Acquisition of machinery and equipment net of Government grants	355,000	398,000
Deferred development costs	487,000	200,000
Reduction in long term debt	168,000	98,000
Dividends on common shares	60,000	58,000
	1,070,000	754,000
Increase (decrease) in working capital	(16,000)	197,000
Working capital, beginning of period	2,760,000	2,737,000
Working capital, end of period	$2,744,000	$2,934,000

SPAR AEROSPACE PRODUCTS LTD.

825 CALEDONIA ROAD, TORONTO, ONT. M6B 3X8

SPAR
AEROSPACE PRODUCTS LTD.

Interim Report
for the six months
ended
June 30, 1974



Canicop

To the Shareholders:

Results for the first six months of 1974 reflect improvement in revenues and earnings over the comparable period in 1973. Revenues increased from $8,719,000 to $11,370,000 and income after taxes rose from $259,000 to $284,000.

Activity in all Spar business categories increased over 1973. Of particular importance is the higher level of manufacturing of gear and transmission parts for major customers and a doubling of revenues of Astro Research Corporation, our U.S. subsidiary.

While overall company margins were adversely affected by our continuing investment in transportation systems, profit margins in other business areas were maintained throughout the period.

Spar's manufacturing volume has continued to grow as the company has become more deeply engaged in production-type gear orders. This is expected to improve operating results in this critical business category. Discussions with a number of existing customers for substantial new, long term contracts are in progress.

The LIM dynamic test facility is progressing well, although delays in obtaining materials will set back the in-service date from October to November of this year. Discussions are continuing between the company and both Federal and Ontario Government officials regarding Spar's participation in the development of new transportation systems.

The recently announced Canadian Government policy on space should provide opportunities for Spar's participation in future major space programs. In addition, a recent survey of European markets indicates many possibilities for the utilization of Spar's expertise through our Belgian subsidiary, Astro Spar S.A.

Spar has maintained its close liaison with the Canadian Armed Forces regarding the use of our electro-optical skills and has delivered an improved version of an infra-red surveillance system to the United States Navy for shipboard evaluation.

Our management team has been substantially strengthened through the addition of Mr. R. D. Richmond as president and chief operating officer. Mr. Richmond brings to Spar a wealth of experience in engineering and manufacturing within the aerospace industry in Canada.

At a recent meeting of the directors, Mr. Richmond was elected to the board to fill the vacancy arising from the resignation of Mr. Jack Wright. Mr. Wright's contribution to the company during its formative years was most valuable and the board wishes to acknowledge his wise counsel and advice so generously given.

The board of directors has declared a quarterly dividend of 2¢ per common share for the third quarter of 1974. The dividend will be paid September 12, 1974 to shareholders of record August 27, 1974.

On behalf of the board,

L. D. Clarke.

Toronto, Ontario
August 12, 1974

L. D. CLARKE, Chairman

SPAR AEROSPACE PRODUCTS LTD.

Consolidated Statement of Income
(Unaudited)

	Six months ended June 30, *1974*	*1973*
Revenues	$11,370,000	$8,719,000
Income from operations	494,000	475,000
Provision for income taxes	210,000	216,000
Net income for the period	$ 284,000	$ 259,000
Earnings per share:		
Basic	$ .19	$ .18
Fully diluted	$ .17	$ .15

Basic earnings per share are calculated on 1,512,572 (1973 – 1,457,034) shares being the weighted average number of common shares outstanding.

Fully diluted earnings per share are calculated on 1,793,304 shares assuming conversion of all the deferred shares and exercise of all options outstanding, after recognition of imputed earnings on cash payments that would be received on the issue of common shares.